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AICPA (American Institute of Certified Public Accountants) National Conference on Federal Taxes

Max S. Baucus

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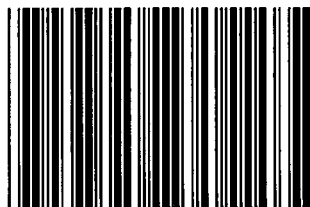
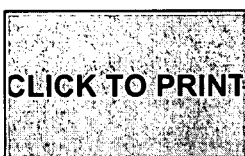
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(2) Subject* **Capitol Hilton Hotel**

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BAUCUS

AN ADDRESS BY
SENATOR MAX BAUCUS

1981 AICPA NATIONAL CONFERENCE ON FEDERAL TAXES
THE CAPITOL HILTON
WASHINGTON, D. C.
OCTOBER 27, 1981

THANK YOU. IT'S A PLEASURE TO BE HERE TODAY.

IT'S APPROPRIATE THAT YOUR CONFERENCE IS MEETING AT
A TIME WHEN THE NEWSPAPERS ARE FULL OF HEADLINES ABOUT PROPOSED
TAX CUTS AND TAX INCREASES.

THE PRESIDENT'S MASSIVE ECONOMIC PROGRAM WAS ENACTED ONLY
A COUPLE OF MONTHS AGO WITH A \$750 BILLION TAX REDUCTION THROUGH
1986. YET, CONGRESS AND THE ADMINISTRATION ALREADY ARE GRAPPLING
WITH WAYS TO USE THE TAX CODE TO BRING ECONOMIC STABILITY TO
OUR COUNTRY. IT'S EVER MORE APPARENT THAT THE TAX CODE WILL
BE THE FOCUS OF THAT EFFORT.

IN THE MEANTIME, THERE IS STILL ANOTHER DEVELOPMENT
THAT FOCUSES ATTENTION ON THE CODE: THE RISING CHORUS OF
DISCONTENT WITH THE CODE IN GENERAL.

FOR EXAMPLE, I HEAR A LOT FROM PEOPLE IN MY OWN STATE
OF MONTANA ABOUT TAXES.

I HEAR THAT TAXES ARE TOO HIGH AND THAT THE FEDERAL GOVERNMENT
WASTES OUR TAXES ON USELESS PROGRAMS.

I HEAR THAT TAX LAWS ARE TOO COMPLICATED,

I HEAR THAT TAX FORMS AND REPORTING REQUIREMENTS ARE UNNECESSARILY BURDENSOME,

I HEAR THAT ACCOUNTANTS AND OTHER TAX PREPARERS FEEL THEY ARE OUT ON A LIMB WHEN THEY INTERPRET THESE COMPLEX TAX LAWS.

THESE COMPLAINTS AREN'T JUST FROM MONTANA. ALL OF US IN CONGRESS ARE HEARING AN EVER LARGER CHORUS OF FRUSTRATION, DISTRESS, HELPLESSNESS AND DISTRUST FROM TAXPAYERS.

WE HEAR THAT A GROWING NUMBER OF TAXPAYERS ARE WILLING TO TAKE ADVANTAGE OF THE SO-CALLED "AUDIT LOTTERY" BY RISKING QUESTIONABLE DEDUCTIONS ON THEIR TAX RETURNS.

TAXPAYERS WHO CONSCIENTIOUSLY REPORT AND PAY THEIR TAXES ARE BEGINNING TO FEEL THAT THEY ARE NOT ^{ONLY} RESPONSIBLE CITIZENS -- BUT REALLY FOOLS LEFT TO FOOT THE TAX BILL OF OTHERS.

WE SEE MORE REPORTS OF A GROWING UNDERGROUND ECONOMY. CONSERVATIVE ESTIMATES PUT THE AMOUNT OF UNREPORTED FEDERAL TAXES FROM LEGAL INCOME AT ABOUT \$15 BILLION A YEAR, AND UNREPORTED FEDERAL TAXES FROM ILLEGAL INCOME AT ABOUT \$8 BILLION A YEAR. AS I SAID, THESE ESTIMATES ARE CONSERVATIVE.

MUCH OF THIS IS DUE TO INFLATION -- OBVIOUSLY. AS PEOPLE'S REAL INCOMES DON'T KEEP UP, PEOPLE TEND TO REPORT LESS.

YET, MUCH OF IT IS ALSO DUE TO THE PERCEPTION THAT THE OTHER GUY IS GETTING A BETTER BREAK.

UPPER INCOME TAXPAYERS OFTEN FEEL IT ISN'T RIGHT THAT THE HIGHEST INCOME TAX BRACKETS ARE SO HIGH. THEY, THEREFORE, ARE MORE TEMPTED TO ABUSE THE MANY PROVISIONS IN THE CODE THAT ARE AVAILABLE TO THEM.

MIDDLE INCOME TAXPAYERS, TOO, FEEL THAT THEY ARE UNFAIRLY DISCRIMINATED AGAINST BECAUSE THEY CAN'T TAKE ADVANTAGE OF ALL THOSE LOOPHOLES THE RICH FELLOW GETS. THEY, TOO, ARE TEMPTED TO REPORT LESS INCOME.

ALTHOUGH THESE PROBLEMS ARE NOT DIRECTLY ~~CONCERNED WITH~~ ^{RELATED TO} FISCAL AND ECONOMIC POLICY, THEY ARE VERY REAL CONCERNS AND THEY MUST BE SQUARELY DEALT WITH.

IN AN EFFORT TO HELP RESOLVE ^{THEM,} ~~THESE PARTICULAR CONCERNS,~~ I HAVE INTRODUCED MEASURES WHICH NOW ARE WORKING THEIR WAY THROUGH THE CONGRESS.

THE FIRST IS CALLED THE TAXPAYER PROTECTION AND REIMBURSEMENT ACT.

MY PROPOSAL WOULD ALLOW TAXPAYERS TO BE REIMBURSED FOR THEIR ATTORNEYS' FEES WHEN THEY WIN THEIR CASE IN THE TAX COURT AND ^{WHEN} THE COURT RULES THAT THE GOVERNMENT HAS TAKEN AN UNREASONABLE POSITION.

A FINANCE SUBCOMMITTEE JUST HELD HEARINGS ON THIS PROPOSAL ON OCTOBER 19.

I ALSO HAVE INTRODUCED A PROGRAM OF SPECIFIC TAXPAYER PROTECTIONS -- A TAXPAYER'S BILL OF RIGHTS. I BELIEVE THAT LEGISLATION SETTING FORTH TAXPAYER RIGHTS AND PROTECTION AGAINST IRRESPONSIBLE ADMINISTRATIVE ACTIONS IS OF CRITICAL IMPORTANCE TO TAXPAYERS, TAX PRACTITIONERS, AND TAX ADMINISTRATORS ALIKE.

IT IS MY HOPE THAT THESE MEASURES WILL HELP RE-ESTABLISH SOME TAXPAYER CONFIDENCE THAT THE IRS IS DEALING FAIRLY WITH THE TAXPAYER -- THAT THE TAXPAYER IS GETTING A FAIR DEAL IN THE ADMINISTRATION OF THE CODE.

THEY ARE IMPORTANT BILLS. AND FROM THE WARM RECEPTION THEY ARE GETTING IN THE CONGRESS, I'M QUITE CONFIDENT THAT MOST MEMBERS OF CONGRESS FEEL THAT THEY ADDRESS STRONG CONCERNS OF THEIR CONSTITUENTS.

THESE MEASURES, HOWEVER, DEAL ONLY WITH THE ADMINISTRATION OF THE CODE ~~BY THE IRS~~. THEY ONLY TOUCH THE TIP OF THE ICEBERG. THE MASSIVE BULK OF ICE BELOW THE WATERLINE ARE THE NUMEROUS PROVISIONS OF THE CODE ITSELF.

THE TAX CODE, AS YOU KNOW, IS REALLY A REFLECTION OF A DEMOCRATIC SOCIETY. IT'S MANY PROVISIONS HAVE BEEN ENACTED OVER THE YEARS AS A DIRECT RESULT OF PERCEIVED SOCIAL, ECONOMIC AND POLITICAL NEEDS. THE WINDFALL PROFITS TAX ~~BILL~~ AND THE ECONOMIC RECOVERY ACT, PASSED LAST SUMMER ARE TWO GOOD EXAMPLES.

THE WINDFALL PROFITS TAX BILL WAS DESIGNED TO HELP SOLVE OUR ENERGY CRISIS. THE ADDITIONAL "WINDFALL" GAIN OF THE OIL COMPANIES WITH THE DECONTROL OF CRUDE OIL WAS ~~TO BE~~ TAXED, WITH THE REVENUE GOING TO PAY FOR MASS TRANSIT, LOW INCOME ENERGY ASSISTANCE AND THE MULTITUDINOUS TAX CREDITS DESIGNED TO CONSERVE ENERGY AND PROMOTE ALTERNATIVE FORMS OF ENERGY. IT WAS A MASSIVE BILL AND IT DIRECTLY AFFECTED MOST AMERICANS.

THE ECONOMIC RECOVERY TAX ACT OF 1981 ORIGINALLY WAS INTENDED TO REBUILD AMERICA. FOLLOWING THE THEORY OF SUPPLY SIDE ECONOMICS, CONGRESS REDUCED TAXES \$750 BILLION OVER SIX YEARS SO THAT PEOPLE COULD SAVE AND INVEST MORE INCOME, THEREBY RAISING AMERICAN PRODUCTIVITY.

THAT BILL ALSO CONTAINED OTHER PROVISIONS DESIGNED TO MEET OTHER SOCIAL GOALS. FEDERAL ESTATE AND GIFT TAXES WERE DRASTICALLY LOWERED ~~IN AN EFFORT~~ TO KEEP SMALLER ESTATES, PARTICULARLY FARMS AND RANCHES, INTACT AND WITHIN THE FAMILY. OIL ROYALTY OWNERS WERE TAXED LESS, ~~IN AN EFFORT~~ TO OFFSET A TAX PREVIOUSLY IMPOSED

ON THEM IN THE WINDFALL PROFITS TAX BILL.

BOTH OF THESE BILLS FOLLOWED THE USUAL PATTERN WHERE CONGRESS CHANGES THE TAX CODE TO MEET A PERCEIVED NEED.

THERE IS, HOWEVER, ANOTHER NEW DEVELOPMENT WHICH WILL ACCELERATE AND INTENSIFY EVEN MORE CHANGES IN OUR FEDERAL TAX LAW: THE OMINOUS SPECTER OF TOWERING FEDERAL DEFICITS.

YOU'VE READ THE REPORTS THAT, DEPENDING UPON ONE'S ESTIMATE, THE FEDERAL DEFICIT WILL BE BETWEEN \$200 AND \$300 BILLION OVER THE NEXT THREE YEARS. THIS IS A FAR CRY FROM THE ADMINISTRATION ESTIMATES AS RECENTLY AS LAST MONTH OF \$115 BILLION OVER THE SAME THREE YEARS.

THESE HIGH DEFICITS ARE NOT ONLY POLITICALLY EMBARRASSING TO THE PRESIDENT AND THE CONGRESS, BUT THEY ARE WREAKING ECONOMIC HAVOC BOTH ON WALL STREET BOND AND STOCK MARKETS, AND ON MAIN STREET HIGH INTEREST RATES AND BUSINESS FAILURES.

CONGRESS AND THE PRESIDENT WILL CONTINUE TO FIND WAYS TO CUT SPENDING ~~IN AN EFFORT~~ TO REDUCE THE DEFICIT. YET, ALREADY THE CONGRESS, PARTICULARLY, AND MOST SIGNIFICANTLY, THE REPUBLICAN MEMBERS OF CONGRESS, IS REACTING AGAINST ANY SIGNIFICANT ADDITIONAL SPENDING CUTS. IT WILL BE VERY DIFFICULT FOR CONGRESS TO CUT ANYTHING THAT APPROACHES THE REVISED FIGURES OF \$200 AND \$300 BILLION.

THE MAJOR FOCUS, THEREFORE, WILL BE TO TURN MORE TO THE TAX CODE AND FINDING WAYS TO RAISE TAXES -- OR IN THE NEW POLITICAL PARLANCE OF WAYS TO ENHANCE REVENUE.

RECENTLY
THE PRESIDENT OPENED THE DOOR SLIGHTLY WHEN HE ASKED CONGRESS FOR APPROXIMATELY \$3 BILLION IN ADDITIONAL REVENUE FOR FISCAL 1982, SUGGESTING THAT CONGRESS REDUCE CONSERVATION CREDITS AND LIMIT THE USE OF TAX-EXEMPT INDUSTRIAL DEVELOPMENT BONDS.

IN TODAY'S PAPER, SENATOR DOLE, CHAIRMAN OF THE SENATE FINANCE COMMITTEE, SUGGESTED THAT PERHAPS CONGRESS COULD RAISE UP TO \$50 TO \$60 BILLION ~~PER YEAR~~ DURING THE NEXT THREE YEARS. HIS PRECISE ITEMS INCLUDE RAISING ~~SOME~~ EXCISE TAXES, PARTICULARLY THE SO-CALLED SIN TAXES ON TOBACCO AND ALCOHOL, ALONG WITH LIMITING SOME TAX EXPENDITURES OR LOOPHOLES AS THEY ARE KNOWN TO OTHERS. FOR EXAMPLE, HE SUGGESTS THAT SOME LIMITS MAY BE PLACED ON CONSUMER LOAN INTEREST DEDUCTIONS OR EVEN ON THE MORTGAGE INTEREST DEDUCTION.

OTHER MEMBERS OF CONGRESS SUGGEST ADDITIONAL ENERGY TAXES WHETHER IT BE A TAX ON IMPORTED OIL ONLY, A TAX ON BOTH IMPORTED AND DOMESTICALLY PRODUCED OIL, A TAX ON DEREGULATED NATURAL GAS WINDFALL PROFITS, OR EVEN A TAX ON GASOLINE CONSUMPTION.

ANY OF THESE TAXES WOULD PRODUCE SIGNIFICANT REVENUE, BUT THEY WOULD NOT BE ~~SUFFICIENT~~ ENOUGH.

THE BIG REVENUE RAISER IS ALSO, AT THIS POINT, THE MOST POLITICALLY DIFFICULT. THE ADMINISTRATION FINDS IT DIFFICULT TO QUICKLY TURN 180 DEGREES AND AGREE TO RAISE TAXES JUST A FEW MONTHS AFTER ITS BIG TAX CUT WAS SIGNED INTO LAW. NEVERTHELESS, I SUSPECT THAT THE PROSPECT OF EXCESSIVE DEFICITS WILL FORCE THE ADMINISTRATION AND CONGRESS TO SERIOUSLY CONSIDER DEFERRING OR STRETCHING OUT SOME OF THE INDIVIDUAL AND BUSINESS TAX REDUCTIONS.

THE SEARCH TO LOWER DEFICITS WILL ALSO FORCE US TO TURN OUR SPOTLIGHT ON A HITHERTO SACROSANCT AREA: TAX EXPENDITURES. ALL THOSE TAX DEDUCTIONS AND CREDITS THROUGHOUT THE CODE, OR TAX EXPENDITURES AS THEY ARE CALLED, ~~AMOUNT TO \$270 BILLION~~ HAVE GROWN ENORMOUSLY. IN 1968, THE BUDGET INCLUDED 40 DIFFERENT TAX EXPENDITURES AMOUNTING TO \$44 BILLION. TODAY, 14 YEARS LATER, THERE ARE 100 ITEMS, TOTALING \$270 BILLION -- AN APPROXIMATE 8-FOLD INCREASE IN 14 YEARS. ~~\$270 BILLION IS 1/3 OF BUDGET~~

THEY GROW AND MULTIPLY BECAUSE THEY ARE PUSHED BY SINGLE INTEREST GROUPS. ~~AND~~ THEY ARE BURIED DEEP INTO THE CODE AND INTO THE INDIVIDUAL TAXPAYERS RETURNS. THEY ARE NOT HIGH PROFILE ANNUAL CONGRESSIONAL APPROPRIATIONS.

IT IS CLEAR, HOWEVER, THAT CONGRESS WILL BE FORCED TO REVIEW THEM, TO SUNSET THEM, ^{TO} FIND OUT THE ONES WHICH ACTUALLY WORK AND THE ONES THAT SHOULD BE DISCARDED.

IT WILL BE AN EXTREMELY BUSY AND ^{INTENSE} ~~TO~~ FEW YEARS FOR THE CODE. PUBLIC CONCERN OVER ADMINISTRATION OF THE CODE, DISCONTENT ABOUT THE LEVEL OF TAXES, AND CONGRESSIONAL EFFORTS TO STABILIZE AND REVITALIZE THE ECONOMY WILL CAUSE ALL OF US TO BUSILY RE-EXAMINE AND RE-THINK BASIC ASSUMPTIONS.

ALL OF THIS, OF COURSE, WILL NOT BE WITHOUT COSTS. INDIVIDUAL TAXPAYERS, CERTAINLY BUSINESS TAXPAYERS AND, I SUSPECT, YOU IN THE ACCOUNTING PROFESSION, WOULD LIKE TO SEE SUCH SIMPLICITY AND CERTAINTY IN THE CODE.

BELIEVE ME, I DEEPLY SHARE THAT WISH. IT IS MY HOPE ^{THAT} ~~THEN~~ ^{PERIOD} WHEN THIS ~~NEXT YEAR~~ ~~PERIOD~~ OF CODE RE-EXAMINATION IS OVER, ~~THE~~ WE WILL MORE FINALLY RESOLVE THESE PROBLEMS AND CHANGE THE CODE LESS OFTEN.

THANK YOU AGAIN FOR YOUR INVITATION TO SPEAK WITH YOU.